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Supreme Court of the United States

October Term, 1976

No. 76-1764

SHATTERPROOF GLASS CORPORATION,
Petitioner,

vs.

LIBBEY-OWENS-FORD COMPANY,
Respondent.

PETITION FOR A WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit

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PETITION FOR A WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit

Your petitioner, Shatterproof Glass Corporation (plaintiff below) hereby petitions that a writ of certiorari issue to review the Order of the United States Court of Appeals for the Sixth Circuit in the above action dated March 3, 1977, rehearing denied April 14, 1977, affirming the judgment of the United States District Court for the Northern District of Ohio, Western Division.

OPINIONS BELOW

The first decision of the District Court is reported at 350 F. Supp. 60 (N.D. Ohio, 1972). On appeal, the Sixth Circuit Court of Appeals reversed and remanded. That decision is reported at 482 F.2d 317 (6th Cir. 1973). Certiorari was denied February 19, 1974, 415 U.S. 918.

The second decision of the District Court was entered on November 10, 1975, is not reported but is reproduced in was an appeal. The Sixth Circuit affirmed the District Court in an Order filed March 3, 1977 which is reproduced in the appendix to this petition (App. 11-12). Shatterproof petitioned for reconsideration and that petition was denied on April 14, 1977 (App. 13).

JURISDICTION

The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1) and Supreme Court Rule 19(1)(b).

The federal jurisdiction of the District Court was based on 28 U.S.C. §1332(a).

QUESTIONS PRESENTED

(1) When a license agreement requires the licensor to notify the licensee of other relevant license agreements so that the licensee can determine whether or not such other license agreements have better terms, is the breach of that notification requirement not a material breach which entitles the licensee to a refund of the royalties paid to the licensor?

(2) When agreements are compared to determine whether the terms of one are more favorable than those of another, must the comparison not be made from the viewpoint of the protected party?

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*The reference is to the appendix to this petition.

STATUTES INVOLVED

This is a matter of contract law. There are no particular statutes which this case involves.

STATEMENT OF THE CASE

Shatterproof Glass Corporation (Shatterproof) of Detroit, Michigan is an independent manufacturer of automobile windshields. In 1955 it entered into a patent license agreement with Libbey-Owens-Ford Company (LOF) of Toledo, Ohio and obtained a license under certain patents pertaining to the manufacture of laminated automobile windshields. Through 1960, it paid royalties to LOF under one of those patents, Pearse Patent No. 2,450,297, in the amount of $325,078.36.

The LOF-Shatterproof license agreement had the following favored nations or equal treatment clause:

> "11. LIBBEY-OWENS-FORD agrees that if any license *heretofore or hereafter* granted by it under any one or more claims of the licensed patents contains any more favorable terms or rates of royalty than granted to LICENSEE hereunder, then LICENSEE shall thereupon have the benefit of such more favorable terms or rates for the same claim or claims, but under no other claims of any of the licensed patents. *LIBBEY-OWENS-FORD shall promptly notify LICENSEE of each license granted by it to others that includes any patent or patent claim licensed under this agreement and shall upon request, make available to counsel for LICENSEE a complete copy of such agreement for inspection.*" (emphasis supplied)

Shatterproof sued LOF in the District Court in Toledo for a refund of the $325,078.36 royalties paid under the Pearse patent on the grounds that in a 1931 license agreement between LOF and Ford Motor Company, LOF had licensed the Pearse patent royalty-free to Ford, had not notified Shatterproof of that license and was therefore entitled to a refund of its royalties.

LOF failed to notify Shatterproof of the 1931 LOF-Ford license agreement as required by the quoted provisions of the LOF-Shatterproof license. Both the District Court and the Court of Appeals found that LOF's failure to notify Shatterproof was a breach of the agreement.

LOF admitted that Ford had not paid any royalties for its use of the Pearse patent but claimed that an additional consideration for the 1931 LOF-Ford license was "Ford's consent" to the transfer of certain patents of Triplex Corporation to LOF, which consent was given in 1931, permitted LOF to expand its laminated glass operation, and was of immense value to LOF.

In its second decision, the District Court found that Ford's consent was worth all of the profits of LOF from its laminating glass operations through 1954, which profits far exceeded the royalties paid bv Shatterproof. The Court of Appeals affirmed the second decision of the District Court.

Triplex was a corporation which owned a number of patents pertaining to the manufacture of laminated automobile windshields. In 1928 it had entered into a cross-license with Ford whereby Ford undertook to develop a continuous process for the manufacture of laminated automobile windshields in return for which Triplex gave Ford a royalty-

free license under its patents. Additionally, Ford agreed to buy laminated glass windshields from Triplex.

Triplex was insolvent in 1931 and could not supply Ford with windshields because it could not produce them inexpensively enough and did not have a source of raw glass to make into laminated glass. LOF and PPG had refused to supply Triplex with raw glass.

LOF argued that it had to have the consent of Ford in order to acquire the Triplex patents because Ford's obligation to purchase laminated glass from Triplex was a personal obligation. Ford's obligation to purchase glass from Triplex terminated on April 30, 1932.

In addition to Triplex, the 1931 transactions involved LOF, Ford, General Motors, and Pittsburgh Plate Glass Company and a number of other related agreements. The District Court summarized the deals made in 1931 in its Finding 29 (App. 24). The relationships then established stand today. LOF supplies General Motors with windshields and PPG supplies Ford with windshields.

The 1931 LOF-Ford agreement included three other patents of LOF which were licensed to Ford and also were licensed to Shatterproof.

On its books, LOF valued all of the patents acquired from Triplex at $114,560.

Ford used many of the same patents as Shatterproof. LOF negotiated with Ford for many years in a dilatory way but did not settle with Ford for its infringement until 1962, all the while taking the royalty payments of Shatterproof.

In its first decision, the Court of Appeals held that another patent, Jendrisak Patent No. 2,551,607, was included in the 1962 license agreement between LOF and Ford and directed the District Court to determine if it had been licensed at more favorable rates. On remand, the District Court recognized that Ford had paid royalties for its use of the Jendrisak patent at about half the rate paid by Shatterproof but refused to award a refund of royalties to Shatterproof because Shatterproof and Ford had not used the patent over the same time period and there was, therefore, no direct competitive injury.

LOF licensed Shatterproof in the first place because it was required to do so by the terms of a 1948 antitrust consent decree (the so-called "flat glass" or Toledo decree). The consent decree required LOF to license any applicant at reasonable nondiscriminatory royalty rates. In an antitrust treble damage count filed with this action, Shatterproof claimed that LOF had violated the terms of the consent decree and discriminated against it, but that count was dismissed in the District Court on the authority of *Paul M. Harrod Company v. A. B. Dick Company,* 194 F. Supp. 502 (D.C.N.D. Ohio, 1961).

Many commercial agreements have favored nations clauses in them; for instance, supply agreements between natural gas producers and distributors. See *Texas Gas Transmission Corp. v. Shell Oil Co.,* 363 U.S. 263 (1960); *Permian Basin Area Rate Cases,* 390 U.S. 747 (1968); *Reynolds Metals Co. v. United States,* 438 F.2d 983, 987 (Ct. Cl. 1971); *Kaiser Aluminum & Chemical Corp. v. United States,* 287 F.2d 890 (Ct. Cl. 1961); *Consolidated Gas, Elec. Light & Power Co. v. United Rys. & Elec. Co.,* 76 F.2d 535 (4th Cir. 1935).

FIRST QUESTION

There is a conflict between the Sixth and Fourth Circuits on this question.

The District Court and the Sixth Circuit Court of Appeals ignored the fact that LOF breached the notice provisions of its license agreement with Shatterproof. LOF let Shatterproof pay royalties while its competitor Ford had a royalty-free license and then was allowed to defend this discriminatory treatment on the very agreement which it had kept secret from Shatterproof.

In *St. Joseph Iron Works v. Farmers Mfg. Co.,* 106 F.2d 294 (4th Cir. 1939), however, the Fourth Circuit Court of Appeals held that the breach of the notice provisions of a favored nations clause was a "vital matter" and that the licensee should be refunded the royalties which it had paid "in ignorance of its rights".

In substance, the Fourth Circuit recognized the clear injustice of permitting a licensor to withhold material information from a licensee and still collect royalties from the licensee while the Sixth Circuit did not.

The conflict should be resolved and the law on this question should be settled.

SECOND QUESTION

This question is directed to the construction of favored nations clauses generally and has application far beyond the particular circumstances of this case. As indicated, all sorts of agreements have favored nations clauses in them.

Favored nations clauses should be interpreted to give effect to their purpose—which is to make sure that different parties dealing with a common third party get fair and equal treatment.

Ford was a licensee and Shatterproof was a licensee and they were, therefore, the protected parties of the favored nations clause from whose viewpoint the considerations flowing back and forth should have been evaluated. The only logical way to evaluate Ford's consent was from Ford's viewpoint, that is, what it cost Ford or what the benefits to Ford were.

The conclusion of the District Court that Ford's consent was worth $52,909,263 to LOF and therefore more than offset the royalties paid by Shatterproof, is ridiculous. The benefits to LOF, grossly inflated or not, were not relevant and should not have been the basis for the evaluation of Ford's consent.

The Court of Appeals declined to address itself to the issue presented to it. It indicated that the District Court was in error in its reasoning but affirmed the judgment.

The District Court and the Sixth Circuit have made a fundamental error in law, which should be set right.

This is an important question which should be settled. This Court will never again find itself presented with circumstances which are as clear-cut as these.

REASONS WHY THE WRIT SHOULD BE GRANTED

The writ should be granted because there is a conflict between the Sixth Circuit and the Fourth Circuit and because there is an important unsettled question of contractual law. Moreover, such a manifest injustice has been done to Shatterproof as to call for an exercise of this Court's power of supervision.

CONCLUSION

WHEREFORE YOUR PETITIONER PRAYS that a writ of certiorari issue to the Court of Appeals for the Sixth Circuit so that this cause may be reviewed and determined by this Court, the judgment of the Sixth Circuit reversed, and your petitioner refunded the royalties paid under Patent No. 2,450,297, together with interest.

Respectfully submitted,

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APPENDIX

ORDER OF THE COURT OF APPEALS

(Filed March 3, 1977)

No. 76-1141

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

SHATTERPROOF GLASS CORPORATION,
Plaintiff-Appellant,

v.

LIBBEY-OWENS-FORD COMPANY,
Defendant-Appellee.

ORDER

Before: PHILLIPS, *Chief Circuit Judge,* and CELEBREZZE and ENGEL, *Circuit Judges.*

Shatterproof Glass Corporation appeals from a judgment of the District Court entered in favor of Defendant, Libby-Owens-Ford, in an action to recover royalties allegedly overpaid under a "favored nations" clause in a patent license agreement. In 1972, the District Court dismissed the case upon a determination that there had been no breach of the agreement. *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 350 F. Supp. 60 (N.D. Ohio 1972). On appeal to this Court we reversed and remanded the cause for an evidentiary finding of whether Ford Motor Company actually obtained more favorable terms or rates of royalty than did Appellant

for those patents which we found to be covered by the agreement. *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F. 2d 317 (6th Cir. 1973). The instant appeal challenges the legal basis of the District Court's conclusions on remand.

We have reviewed the record and briefs of counsel and find that the District Court properly complied with the terms of our mandate. Since there was sufficient evidence to support the District Court's factual finding that consideration for Ford's consent to the assignment of the contract was, in terms of money, equal to or greater than the royalty rate for Shatterproof's use of the same patents, we do not go further to pass upon the precise method of valuation employed by the District Court.

Therefore, it is the Order of this Court that the judgment of the District Court be, and it hereby is, AFFIRMED.

ENTERED BY ORDER OF THE COURT

/s/ JOHN P. HEHMAN
Clerk

ORDER OF THE COURT OF APPEALS DENYING PETITION FOR REHEARING

(Filed April 14, 1977)

No. 76-1141

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

SHATTERPROOF GLASS CORPORATION,
Plaintiff-Appellant,

v.

LIBBEY-OWENS-FORD COMPANY,
Defendant-Appellee.

ORDER

Before: PHILLIPS, *Chief Circuit Judge*, and CELEBREZZE and ENGEL, *Circuit Judges.*

The Plaintiff-Appellant filed a petition for rehearing with a request for rehearing in banc. No Judge of this Court having moved for a rehearing in banc, the petition to rehear has been referred to the hearing panel.

Upon consideration, the Court being advised, it is ORDERED that the petition for rehearing be DENIED.

ENTERED BY ORDER OF THE COURT

/s/ JOHN P. HEHMAN
Clerk

FINDINGS OF FACT AND CONCLUSIONS OF LAW

(Filed November 7, 1975)

No. C 69-71

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
WESTERN DIVISION

SHATTERPROOF GLASS CORP.,
Plaintiff,

vs.

LIBBEY-OWENS-FORD GLASS CO.,
Defendant.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

WALINSKI, *J*:

This cause came on for re-trial on December 9, 1974, of certain issues pursuant to the remand by the Sixth Circuit Court of Appeals. The Court of Appeals stated:

> "On remand, therefore, LOF will have the burden of proving that Ford was not given a license to use any of the patents licensed to Shatterproof under more favorable terms or royalty rates."

Therefore, the Findings of Fact and Conclusions of Law will be limited to that issue, the others having been determined by the appellate decision.

The Court of Appeals further determined that five (5) patents licensed to Shatterproof were within the 1931 LOF

licensing cross-agreement. A comparison of royalty rates in regard to said patents shows the following:

Patent	1931 Ford -LOF royalty rate	1955 LOF-Shatterproof royalty rate
2,392,770 (Ryan)	Royalty free	1/2 cent
2,450,297 (Pearse)	Royalty free	2 cents
2,593,405 (Beckham)	Royalty free	2-1/2 cents
2,593,525 (Beckham)	Royalty free	2 cents
2,636,420 (Ryan)	Royalty free	1 cent

The rate to be paid on the Pearse patent has been reduced, effective January 1, 1961, to 1/2 cent per square foot, pursuant to the 1962 Ford-LOF license.

Of the five patents found to be within that agreement, Shatterproof actually used and paid royalties on only two patents, 2,392,770 (Ryan), and 2,450,297 (Pearse). Since no royalties were paid on the other three patents, the fact Ford had a license at more favorable rates did not result in any damages to Shatterproof.

In defining "royalty", the Court of Appeals determined the meaning to include "payment proportionate to the use" and the "compensation" paid by the licensee:

> "In determining, then, whether Shatterproof is entitled to any more favorable 'terms or rates of royalty,' the full consideration paid by each licensee must be considered. Shatterproof's consideration was a specified rate of royalty. Ford's consideration was the granting of a royalty-free license to use certain patents it owned. In addition, a portion of the $400,000 paid for the release

must be considered as compensation for the license. Thus, the consideration in each case was certainly different. But the question to be determined is whether one was more favorable than the other. Only by a comparison of the value of the consideration given in each instance can it be determined whether Shatterproof is entitled to more favorable rates."

FINDINGS OF FACT

(1) On May 19, 1955, Defendant Libbey-Owens-Ford Company (hereinafter referred to as "LOF") entered into a license agreement with plaintiff, Shatterproof Glass Corporation (hereinafter referred to as "Shatterproof"). Pursuant to said agreement, LOF granted a license under a number of its patents at stipulated royalty rates.

(2) Pursuant to said agreement, Shatterproof paid the following royalties under three patents, among others:

Pearse and Bamford Patent No. 2,450,297—	$325,078.36
Ryan Patent No. 2,392,770 —	28,316.52
Jendrisak Patent No. 2,551,607 —	11,147.08

(3) In the Shatterproof license, there is both a prospective license and an accounting and release for past infringement.

(4) Shatterproof has claimed a refund of all [illegible]alties paid under the *Ryan* and *Pearse and Bamford* patents pursuant to Article 11 of the license agreement, which provides that LOF shall give Shatterproof the benefit of any more favorable terms and rates of royalty granted to another licensee. Shatterproof claims that LOF granted Ford Motor Company (hereinafter referred to as "Ford") more favorable

terms and rates of royalty under a license agreement entered into on December 4, 1931. Shatterproof has also requested a refund of $5,517.80, pursuant to Article 11, representing 49.5% of royalties paid by Shatterproof under the Jendrisak patent, on the ground that LOF granted Ford more favorable terms and rates of royalty under two agreements entered into between LOF and Ford on April 13, 1962. The following findings are made with respect to each claim separately.

(5) Laminated glass is made by inserting a plastic interlayer between two sheets of glass and provides an important safety factor in automobiles since ordinary plate or sheet glass shatters on impact when used for automotive glazing, whereas laminated glass is resistant to shattering, and the edges of any glass that does shatter are not so sharp.

(6) The originator of the process was a British company, Triplex Safety Glass Company Limited, which acquired the inventions on a process for manufacture of laminated glass developed by a French inventor, Edouard Benedictus. Triplex Safety Glass Company Limited transferred the rights to the laminated glass process on January 30, 1926, to Amory Haskell and Neilson Edwards, who in turn organized Triplex Safety Glass Company of North America (hereinafter referred to as "Triplex"), and Triplex commenced the manufacture and sale of laminated glass under this process.

(7) On October 17, 1927, Ford and Triplex entered into an agreement under which Triplex granted Ford a free license under the Triplex patents and agreed to disclose the process of making laminated glass to Ford, and Ford agreed to attempt to develop a continuous process for manufacturing laminated glass.

(8) Under the contract, Ford also agreed to give Triplex information on a continuing basis with respect to Ford's developments in the laminated glass area, and Triplex agreed to a reciprocal obligation. Ford also acquired the right to call upon Triplex to furnish up to one-half of Ford's requirements of laminated-glass until June 30, 1932, at a price equal to 20 cents per square foot in excess of the cost of manufacture by Triplex or the cost of manufacture by Ford, whichever was lower.

(9) Triplex was a fabricator buying all components of the laminated product from others and was handicapped in that it did not have a dependable source of supply for the thin glass used in the laminating process and had only limited capital with which to develop an efficient manufacturing process. The persons who were active in Triplex did not have a substantial manufacturing background.

(10) Triplex incurred production costs for laminated windshields made from sheet glass from 1928 through January, 1932, of $7,572,035.53, and had total billings of only $7,178,053.52. Total production costs of laminated plate glass windshields made by Triplex for the same period were $2,925,121.20, as compared to billings of $2,977,451.91. Ford's production costs were lower than the production costs of Triplex.

(11) Triplex incurred substantial losses from its manufacturing operations. As of June 30, 1931, the accumulated deficit of Triplex was $614,756.67.

(12) Triplex owned a number of patents which related to the process developed by Triplex for the manufacture of laminated glass. Triplex filed an infringement action against Duplate Corporation, a company in which Pittsburgh Plate Glass Corporation (hereinafter referred to as "PPG")

owned 50% of the stock, and recovered a judgment on November 16, 1929, holding that its Benedictus Patent No. 1,182.739 was valid and infringed. *Triplex Safety Glass Co. of North America v. Duplate Corp.*, 42 F.2d 737 (W.D. Pa. 1929). This patent covered very broadly any type of laminated glass containing gelatin substantially free of moisture. This ruling was affirmed by the Court of Appeals on July 16, 1930. 42 F.2d 739 (3rd Cir. 1930). Triplex continued its suit against Duplate and PPG for infringement and eventually collected $1,523,126.20 as damages for infringement. 110 F.2d 326 (3rd Cir. 1940).

(13) As a result of the favorable outcome of the suit against Duplate, Triplex assumed a commanding position in the laminated glass industry.

(14) In a letter dated January 4, 1930, Mr. Neilson Edwards of Triplex wrote to Mr. R. A. Graham, a director of LOF, stating that Triplex owned two patents, one of which was held valid and infringed by Pittsburgh Safety Glass Company and the other completely covered the process which LOF was using and that these two patents gave Triplex a very strong position from a patent point of view.

(15) The process for the manufacture of laminated glass which was used by LOF in 1931 infringed the following four patents owned by Triplex:

Benedictus Patent No. 1,182,739—expired 5/9/33

Mascart Patent No. 1,342,267—expired 6/1/37

Marckworth Patent No. 1,421,974—expired 7/4/39

Bell Patent No. 1,823,525—expired 9/15/48

(16) In view of the strong patent position of Triplex, LOF was unwilling to undertake to furnish General Motors

with its requirements of laminated glass unless it acquired rights under the Triplex patents, since LOF was concerned that if it went ahead without such rights, Triplex might be able to secure an injunction against further use and an accounting of all profits. LOF therefore entered into negotiations with Triplex during 1930 and 1931 in order to secure rights under the Triplex patents.

(17) Thereafter, as reflected by minutes of the meetings of the LOF Board of Directors held on December 17, 1930, January 27, 1931, and April 28, 1931, negotiations were carried on with Triplex seeking some agreement.

(18) Sometime in 1930, Triplex decided that it wished to sell all of its assets, including its patents, rather than granting a license under the patents. Triplex reached this conclusion because of its increasing losses under the Ford contract, its accumulated deficit from operations, its lack of experience in manufacturing, and its inability to obtain a reliable source of glass used in the laminating process.

(19) Sir Graham Cunningham, formerly executive head of Triplex Safety Glass Company Limited, by letter dated May 14, 1974, confirmed that Triplex insisted upon a sale of its assets rather than granting a license because LOF and PPG had indicated that they would not supply Triplex with glass either at all or at an economic figure which would enable them to be competitive.

(20) After further lengthy negotiations, LOF and Triplex reached an agreement on December 4, 1931, under which LOF agreed to purchase the patents, physical properties and other assets of Triplex in consideration of the transfer of 29,490 LOF shares to Triplex, the purchase of glass inventories on hand on the basis of a formula specified in the agreement, and payment of $25,000 to cover the legal costs

of Triplex in carrying out the transaction. By agreement executed on the previous day, LOF and PPG agreed to share in the cost of acquiring the patents and other assets owned by Triplex, and LOF agreed to grant PPG a license under the Triplex patents.

(21) The contract between Ford and Triplex, dated October 17, 1927, contained no expressed provisions relating to the rights of either party to assign the contract, but Triplex could not assign the contract without the consent of Ford, since the contract was one for personal services extending over a period of time and involved a relationship of personal confidence. The provisions relating to disclosure of improvements to Ford on a continuing basis and the sale of laminated glass by Triplex to Ford show that Ford relied upon the skill and experience of Triplex in the development and manufacture of laminated glass, and that Ford did not intend to permit Triplex to assign the contract to some unqualified and unapproved person. Triplex advised LOF that one of the conditions that had to be fulfilled before entering into the agreement for the sale of its assets was to secure the consent of Ford.

(22) The Court finds that the Triplex-Ford reciprocal agreements called for future exchange of safety plate glass manufacturing know-how and patents that might be developed. This was the seed that grew into the burgeoning and now massive safety glass manufacturing industry. The Court of Appeals stated:

> "* * * the value of technical assistance given should be included in determining whether a * * * licensee had been given more favorable rates * * *."

(23) Although not *expressly* required, by agreement between Ford and Triplex, dated December 4, 1931, Ford

gave its consent to the assignment of the contract to LOF. Ford required that LOF assume the obligations of Triplex to grant a free license to Ford under all patents subsequently acquired by LOF relating to the manufacture of laminated glass. The agreement recites that Triplex has in negotiation a prospective agreement with LOF for the assignment of the Ford-Triplex agreement, that Triplex has asked Ford for its consent to such an assignment, and that the agreement between Ford and Triplex shall not become effective until the agreement between LOF and Triplex becomes effective. Ford entered into an agreement with LOF on December 4, 1931, for an exchange of royalty-free licenses, which is the contract under consideration in this proceeding, and entered into an indentical agreement with PPG at the same time. These two agreements for the exchange of licenses on a royalty-free basis were part of the transaction relating to the acquisition of the Triplex patents and other assets and were designed to carry out the obligation of LOF and PPG to assume all the obligations of Triplex. A very important part of the consideration which LOF received in exchange for a royalty-free license under its patents was the consent by Ford to the assignment of the Triplex contract.

(24) On January 30, 1932, the closing took place under which the transactions described in the December 3rd and December 4th, 1931 agreements were carried out. PPG established a wholly-owned subsidiary which operated the physical facilities of Triplex until the existing contracts expired, at which time the physical facilities were sold. LOF and PPG continued in the manufacture of laminated glass without any fear that Triplex would bring their operations to a halt by reason of an injunction against infringement or demand an accounting of all profits made.

(25) As part of the overall transaction, Triplex granted LOF an exclusive license under the Benedictus patent; Triplex assigned the Ford contract to PPG; and LOF granted PPG a license under the Triplex patents.

(26) In June, 1931, LOF entered into an agreement with General Motors Corporation and its subsidiary, National Plate Glass Company, under which LOF agreed to purchase the plate glass plant operated by National Plate at Ottawa, Illinois, in consideration of $9,500,000, and General Motors entered into a long-term requirements contract with LOF on June 30, 1931, for the supply of all its requirements of glass. This contract specifically excluded laminated glass and included only the thin plate glass blanks that were to be used in the production of laminated glass. In view of the commanding position of Triplex as the owner of the Benedictus patent and other patents, LOF was not at that time in a position to enter into an agreement with General Motors for the supply of laminated glass.

(27) As soon as LOF entered into the agreement with Triplex, LOF was in a position to supply General Motors with its requirements of laminated glass. LOF proceeded to expand its production of laminated glass in order to serve the requirements of General Motors and General Motors shut down its laminating glass plant. The requirements contract between General Motors and LOF was amended on September 21, 1936, in order to include all the requirements of General Motors for laminated glass.

(28) By granting its consent to the assignment of the contract with Triplex and the Triplex patents, Ford made a very substantial concession in that it gave up its position as the sole manufacturer of automobiles with an assured source of supply of laminated glass. If Ford had refused

such consent, it could have continued to manufacture laminated glass under its license from Triplex, and if Triplex went out of business because of its losses, no other manufacturer would be in a position to supply laminated glass in view of the Triplex patents. By giving its consent, Ford made it possible for LOF to undertake to supply laminated glass to General Motors on a large scale and Ford was deprived of a valuable sales advantage in being the only automobile manufacturer with a reliable source of supply of laminated glass. As consideration for granting its consent, Ford required that LOF grant a license without payment of any monetary royalty under laminating patents then owned by LOF or which might be subsequently acquired by LOF. Ford also granted a reciprocal license to LOF under all laminating patents then or subsequently owned by Ford, which also represented consideration for the license from LOF to Ford.

(29) The results of the various transactions which are outlined above were:

a. Triplex was put in liquidation and the October 17, 1927 agreement between Triplex and Ford was terminated.

b. LOF acquired title to the Triplex patents and PPG acquired its assets.

c. Ford continued to manufacture laminated safety glass and PPG became its supplemental source of supply, instead of Triplex.

d. General Motors went out of the glass business and LOF became the source of supply for General Motors for all kinds of automotive glass.

e. The Triplex patents were licensed royalty-free to Ford, LOF and PPG.

f. LOF and Ford exchanged royalty-free licenses under present and future laminating glass patents which might be developed by the other.

g. PPG and Ford exchanged royalty-free licenses under present and future laminating glass patents which might be developed by the other.

(30) LOF and Ford terminated the further exchange of licenses effective May 26, 1950, reserving all rights under patents which had previously issued or which issued subsequently on applications filed on inventions made prior to that date. The 1955 LOF license to Shatterproof covered only certain specified patents which were then in existence, and as to which a reasonable royalty could be determined by reference to the nature and value of the invention. In contrast, the 1931 exchange of license rights between LOF and Ford covered patents which might be acquired in the future, and as to which it was impossible then to determine what royalty might be regarded as reasonable compensation for their use. By 1955, when LOF entered into negotiations with Shatterproof, LOF owned a number of valuable patents in the laminating field which were licensed to Ford, and Ford owned no laminating patents, and the value of the license by LOF to Ford could be reasonably estimated.

(31) Ford used the following six patents owned by LOF during the periods indicated and a reasonable royalty per square foot for the use of such patents is shown:

Inventor	Patent No.	Description	Use made and Periods used by Ford	Amount of Royalty per Square foot
Ryan	2,042,485	Cellulose acetate process	Covers all laminated glass from June 2, 1936-1940	1 cent
Case	1,989,268	Coating machine	Covers all laminated glass from Jan. 29, 1935-1940	1/4 cent
Watkins	2,022,484	Coating machine	Covers all laminated glass from Nov. 26, 1935-1940	1/4 cent
Boicey	2,628,177	Pre-pressing	Covers all laminated windshields from Feb. 10, 1953-Feb. 9, 1970	1 cent
Beckham	2,593,525	Shaded windshield	Covers all shaded windshields with horizontal fade-off line from 1968-Apr. 22, 1969	1/2 cent
Pearse and Bamford	2,450,297	Shielding	Covers all windshields from 1955-Sept. 28, 1965	2 cents

(32) The total royalties that Ford would have paid for the use of the patents listed above as shown by the schedule of royalties offered in evidence, and supporting data set forth, was $10,797,219, and the discounted value of such royalties as of January 1, 1932, computed at a discount rate of 6%, was $2,694,513.

(33) Defendant's Exhibit 77 and supporting schedule, Defendant's Exhibit 79, were prepared on the basis of a royalty of 1/2 cent per square foot for each of the Ryan, Case and Watkins patents, whereas Doctor Ryan stated that in his opinion a reasonable royalty was 1 cent per square foot for the Ryan patent, 1/4 cent for the Case patent, and 1/4 cent for the Watkins patent. The reasonable royalty for the use of all three patents was 1-1/2 cents per square foot as stated by Doctor Ryan and reflected in Defendant's Exhibit 79, but the royalty for the use of the three patents as shown in Defendant's Exhibit 79 should be adjusted because the three patents were not all in force at the same time.

(34) The total royalties for the years 1937 through 1940 is correctly stated in Defendant's Exhibit 79, since in those years all three patents were in force and the total royalty for the use of all three patents was 1-1/2 cents per square foot. The Ryan patent issued on June 2, 1936, the Case patent issued on January 29, 1935, and the Watkins patent issued on November 26, 1935. For the year 1935, the royalties for the use of the Case and Watkins patents during the period when they were in force at the rate of 1/4 cent per square foot for each patent is $50,215, as compared to a royalty of $100,431 for the year 1935 as shown on Defendant's Exhibit 79, a reduction of $50,216. For the year 1936, the royalty for the use of the Case and Watkins patents for the entire year and for the Ryan

patent during the period when it was in force was $217,600, as compared to a total of $259,447, as shown on Defendant's Exhibit 79, a reduction of $41,847. The total reduction for the two years should be $92,063. The total royalty as shown on Defendant's Exhibit 79, or a corrected total of $10,705,156. The discounted value of the royalties for 1935 and 1936, as of January 1, 1932, is $214,521, as compared to $289,830, as shown in Defendant's Exhibit 79, a difference of $75,309. The discounted value as of January 1, 1932, for all anticipated royalties payable by Ford should be reduced from $2,694,513, as shown on Defendant's Exhibit 79, to $2,619,204.

(35) The reasonable royalty for the Ryan, Case and Watkins patents was determined by Doctor Ryan on the basis of his experience in the laminated glass field. The royalty rate for the Boicey, Beckham and Pearse and Bamford patents was also determined by Doctor Ryan, and was set at the same rate which was established in the license by LOF to Shatterproof in the case of the Boicey and Pearse and Bamford patents and at the same rate which was established in the license by LOF to PPG in the case of the Beckham patent.

(36) The consideration of $353,394.88, received by LOF from Shatterproof as royalties under the Ryan and Pearse patents should be compared with the consideration LOF received from Ford to determine if Ford received more favorable terms or rates of royalty. The consideration received from Ford was not represented by the payment of a monetary royalty by Ford to LOF, but rather took the form of the consent by Ford to assignment of the Triplex contract and the grant of a license by Ford to LOF under any inventions Ford might develop. Ford in 1931 surrenderd its position as the sole automobile manufacturer with an assured source of supply of laminated glass by granting its consent

to the assignment of the Triplex contract, and by this action made it possible for LOF to furnish the laminated glass requirements of General Motors. Although such action by Ford did not involve the payment of money by Ford to LOF, such action was the indispensable key which permitted LOF to gain access to the laminated glass market.

(37) LOF realized net profits from the laminated glass business for the years 1932 through 1967 in the aggregate amount of $436,889,313, with a discounted value as of January 1, 1932 at 6% interest of $110,246,422, as shown by the following breakdown for four separate time periods:

	Net Profits	Discounted value to 1/1/32
1932-1941	$ 20,980,978	$ 14,861,997
1942-1945	516,941	291,725
1946-1954	111,870,361	37,755,541
1955-1967	303,521,033	57,337,159
Total	$436,889,313	$110,246,422

(38) The value to LOF of the consent by Ford to the assignment of the Triplex contract cannot be compared directly with the value to LOF of the royalties received from Shatterproof, in view of the much larger scope of Ford's activities. The value to LOF of Ford's consent should be compared with the value to LOF of the royalties that LOF would have received if LOF had granted a license to Ford on the same royalty basis as the license to Shatterproof. The foregoing figures show that the value to LOF of Ford's consent was at least equal to the profits earned by LOF on the sale of laminated glass through 1954, or $52,909,263, as compared to $2,619,204, which is the maximum

value of the royalties that Ford would have paid if licensed on the same basis as Shatterproof, in both cases computing the value of the payments as of January 1, 1932. This comparison shows that LOF received consideration from Ford as a result of the 1931 license with a substantially larger value than the value of the consideration LOF would have received from Ford if LOF had granted Ford a license on the same basis as the license which LOF granted to Shatterproof.

(39) The license from LOF to Ford in 1931 was not on "more favorable terms or rates of royalty" than the license from LOF to Shatterproof in 1955, and Shatterproof is not entitled to a refund of any part of $353,394.88 paid in royalties under the Ryan and Pearse and Bamford patents.

(40) As to Jendrisak patent 2,551,607, Ford used the invention covered by Jendrisak patent in 1959 and 1960. This patent related to a mold for holding a sheet of laminated glass during the bending process, and was licensed to Shatterproof at a royalty of 1 cent per square foot. Ford also used Bamford patent 2,646,647 during this same period. This patent related to an apparatus for tempering of glass, and was licensed to Shatterproof at 2 cents per square foot. The total liability which Ford would have incurred for the years 1959 and 1960 for the use of the Jendrisak and Bamford patents under the royalty rates established in the Shatterproof license was $930,000.

(41) On April 13, 1962, Ford and LOF entered into a number of agreements granting a license under a number of LOF patents and settling a series of controversies between them. Under one of these agreements, LOF released Ford from all claims of infringement prior to January 1, 1961, under a number of patents, including the Jendrisak patent (except Claim 8) and the Bamford patent in consideration

of $400,000. Under another agreement, LOF granted a release of claims of infringement prior to January 1, 1961, with respect to Claim 8 of the Jendrisak patent in consideration of $60,000, LOF also granted Ford a license effective January 1, 1961, under the Pearse and Bamford, Bamford and Jendrisak patents at stipulated royalty rates.

(42) Said releases constituted the grant of a license by LOF to Ford for the period prior to January 1, 1961, within the meaning of Article 11 of the LOF license to Shatterproof, and the amount paid for the releases, totaling $460,000, discharged a liability of $930,000 that Ford would have incurred if Ford had been licensed under the same patents at the same royalty rate charged by LOF to Shatterproof, so that the amount paid by Ford represented 49.5% of the total liability.

(43) The license which LOF granted to Ford by virtue of the releases covered only the period when Ford was using the two patents, which use commenced in 1959, and extended through 1960. Shatterproof paid royalties under the Jendrisak patent totaling $11,147.08 during that period from January 1, 1954, through the first fiscal quarter of 1957, ending on April 30, 1957, and did not use the patent or pay any royalties under the patent after that date. Shatterproof claims a refund of 49.5% of the amount which it paid, or $5,517.80.

(44) Article 11 was intended to prevent Shatterproof from being placed at a competitive disadvantage because another party received more favorable terms or rates of royalty than Shatterproof, and should therefore be construed as applicable only to a license which LOF granted to another party covering the same period of time as the license under which Shatterproof was licensed and paid royalties.

(45) Since the license that LOF granted to Ford under the Jendrisak patent did not become effective until 1959, said license was not on "more favorable terms or rates of royalty" than the license in effect to Shatterproof from 1954 to April 30, 1957, within the meaning of Article 11 of the LOF license to Shatterproof, and Shatterproof is not entitled to a refund of any part of the royalties paid under the Jendrisak patent.

CONCLUSIONS OF LAW

(1) Defendant LOF had the burden of proceeding with the proof of the value to LOF of the 1931 agreements, and the 1962 agreement on re-trial, with which burden of proof LOF complied.

(2) "A royalty is a payment proportionate to the use of a patented device. Western Union Telegraph Co. v. American Bell Telephone Co., [1 Cir.] 125 F. 342, 348." *Tesra Co. v. Holland Furnace Co.*, 73 F.2d 553, 554 (6th Cir. 1934).

(3) " 'Royalty' when used in connection with a license under a patent, means the compensation paid by the licensee to the licensor for the use of the licensor's patented invention." *Hazeltine Corp. v. Zenith Radio Corp.*, 100 F.2d 10, 16 (7th Cir. 1938).

(4) The entire value of any consideration, cost, compensation, or price paid or incurred for a license should be considered. *Prestole Corp. v. Tinnerman Products, Inc.*, 271 F.2d 146, 152 (6th Cir. 1959).

(5) The contract or license between Ford and Triplex was one for personal services between skilled and expert glass manufacturers, requiring future exchange of technical

know-how and inventions, and could not be assigned without consent. *See* 5 Ohio Jur. 2d 159.

(6) The consent by Ford to the assignment by Triplex to LOF was consideration for any license from LOF to Ford.

(7) The ultimate burden of proof was upon Plaintiff Shatterproof to prove by a preponderance of the evidence that the licenses which LOF granted to Ford under the 1931 and 1962 agreements contained any more favorable terms or rates of royalty than LOF granted to Shatterproof under its 1955 agreement. Shatterproof has failed to sustain this burden.

(8) The complaint should be dismissed with prejudice at plaintiff's costs.

IT IS SO ORDERED.

/s/ NICHOLAS J. WALINSKI
United States District Judge

Toledo, Ohio.

November 7, 1975.

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JUN 29 1977
MICHAEL RODAK, JR., CLERK

Supreme Court of the United States

October Term, 1976

No. 76-1764

SHATTERPROOF GLASS CORPORATION,
Petitioner,

vs.

LIBBEY-OWENS-FORD COMPANY,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

BRIEF OF RESPONDENT IN OPPOSITION

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BRIEF OF RESPONDENT IN OPPOSITION

This case involves the interpretation of a license agreement under a unique factual situation and does not present any issue which justifies the grant of a writ of certiorari under the provisions of Rule 19. The decision of the Court of Appeals was not in conflict with any other decision by another Court of Appeals and the decision below did not decide an important state question in a way in conflict with applicable state law. No showing has been made that the trial court so far departed from the accepted and usual course of judicial proceedings as to call for an exercise of the power of supervision by the Supreme Court.

As stated in the petition, this case involves the construction of a provision in a license agreement between Libbey-Owens-Ford and Shatterproof. The central issue for determination in the case was whether Libbey-Owens-Ford granted a license to Ford Motor Company in 1931 on terms more favorable than the license which Libbey-Owens-Ford granted to Shatterproof in 1955. The license from Libbey-Owens-Ford to Shatterproof called for a royalty of 2¢ per square foot on the principal patent whereas the license to Ford called for an exchange of licenses on a royalty-free basis and was part of a transaction in which Ford gave its consent to the transfer to Libbey-Owens-Ford of an existing agreement between Triplex Glass Company of North America and Ford. The District Court held that the value of Ford's consent to such transfer was greater than the royalties that Ford would have paid if it had received a royalty-bearing license on the same terms as Shatterproof, and the Court of Appeals affirmed this determination.

There Was No Conflict With the Decision of the Court of Appeals for the Fourth Circuit.

Shatterproof argues that the decision of the Court of Appeals in the present case is in conflict with the decision of the Court of Appeals for the Fourth Circuit in *St. Joseph Iron Works v. Farmers Mfg. Co.*, 106 F.2d 294. Since this case is based solely on diversity of citizenship, it does not present any issue of federal law. The question of construction of a most favored nations clause in a patent license agreement is governed by Ohio law and any decision by the Court of Appeals of another circuit is irrelevant.

In any event, the decision of the Court of Appeals in the *St. Joseph Iron Works* case expresses the same rule

as was followed in the present case. In that case the Court considered a situation in which the licensor granted a license on a royalty basis and then subsequently granted a royalty-free license to another licensee without advising the first licensee. The Court held that the original licensee was entitled to recover all royalties paid since the date of the second license, and held that failure of licensor to give notice to the original licensee of the grant of the license on more favorable terms was a breach of its contractual obligations.

In the present case the Court recognized that Shatterproof was entitled to a refund of royalties paid if Shatterproof could show that the license to Ford was on more favorable terms, but Shatterproof was unable to sustain the burden of proof of establishing such claim. Under the terms of the license agreement in the present case, Libbey-Owens-Ford agreed to advise Shatterproof of each license granted by it that included any patent licensed under the agreement, and upon request to make available to Shatterproof a copy of such agreement for inspection. Libbey-Owens-Ford did not give Shatterproof notice of the agreement with Ford since it did not believe that the license to Ford was on more favorable terms. Shatterproof can not claim any damages resulting from failure to give such notice since Shatterproof in fact did learn of the existence of the Ford license and had a full opportunity to litigate the question as to whether the license was on more favorable terms. Having failed to prove its claim, Shatterproof can not now claim any damages because of failure by Libbey-Owens-Ford to advise Shatterproof of the existence of the Ford license when the agreement between Libbey-Owens-Ford and Shatterproof was executed.

This same issue was presented by Shatterproof to the trial court and the Court of Appeals. Contrary to the

statement in the petition, neither the trial court nor the Court of Appeals made any determination that the failure by Libbey-Owens-Ford to notify Shatterproof of the existence of the 1931 Ford license was a breach of its agreement with Shatterproof.

The Court of Appeals Did Not Decide an Important State Question in a Way in Conflict With Applicable State Law.

The decision of the trial court and the Court of Appeals is not in conflict with any applicable Ohio statute or case law, and Shatterproof has not suggested the existence of any such conflict. For this reason, a grant of certiorari is not appropriate under the provisions of Rule 19.

In any event the question that Shatterproof seeks to raise is not a question which is worthy of consideration by this Court. Most favored nations clauses in patent license agreements are designed for the protection of the licensee, but there is no support for Shatterproof's claim that the question of the value of consideration received for a license should be viewed solely from the point of view of the licensee. Shatterproof claimed in the courts below, as it does here, that the value of Ford's consent to Libbey-Owens-Ford was not a factor and that for some unexplained reason the only relevant consideration was the detriment or cost to Ford of granting the consent. Libbey-Owens-Ford had the burden of presenting evidence showing the value of Ford's consent to the assignment of the Triplex agreement, and based upon such valuation the trial court determined that the license to Ford was not on more favorable terms. Libbey-Owens-Ford submits that the trial court proceeded in an appropriate manner in determining whether the license to Ford was on more favorable terms.

CONCLUSION

For the foregoing reasons, Libbey-Owens-Ford submits that the petition for a writ of certiorari should be denied.

Respectfully submitted,

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